



Privatisation of public utilities in France

Sophie Méritet
sophie.meritet@dauphine.fr

Patrice Geoffron
patrice.geoffron@dauphine.fr

French-Czech workshop in Applied Economics
28-29 april 2003
CERPEM-CREFED

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

1



Contents

- 1. Why privatising public utilities in France?**
- 2. Telecommunications: France Telecom and the “lender of last resort”.**
- 3. Electricity: a “process” of privatisation under control for EDF**
- 4. Some elements of conclusion**

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

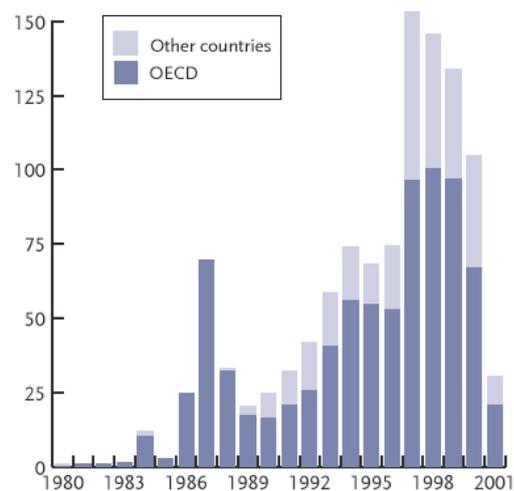
2

Contents

1. **Some highlights on the privatisation's trends in France?**
2. **Telecommunications: France Telecom and the "lender of last resort".**
3. **Electricity: a "process" of privatisation under control for EDF**
4. **Some elements of conclusion**

International privatisation

\$bn, receipts from privatisation worldwide



Source: OECD

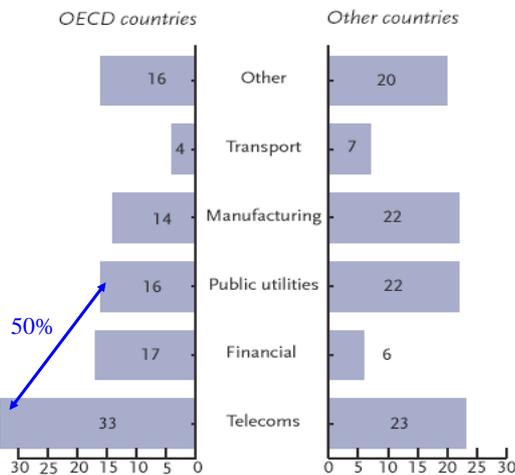
□ In the early 80's privatisation activity was confined to the tradables sector, but in the last 15 years sales of publicly-owned utilities have tremendously raised.

□ In OECD area infrastructure sales accounted for almost 70% of OECD receipts in 1998.

□ Intense global competition between large multinational companies with deep roots in the capital markets has replaced over-regulated monopolies in fragmented markets, financed primarily through budgetary sources.

Privatisation by main sector

% share, 1990-2001 ¹



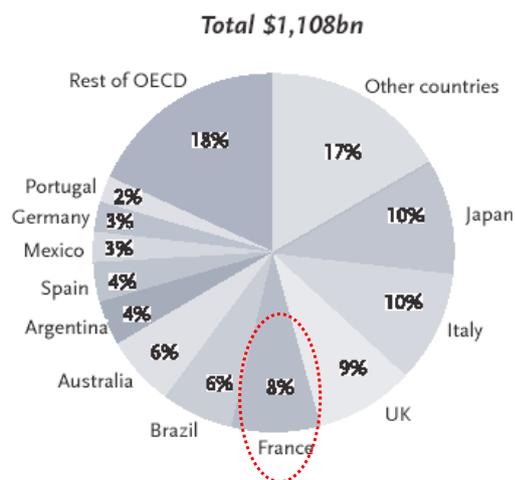
¹ Other countries 1990-99
Source: OECD, World Bank

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

5

France: a major actor of privatisation

% share by country, 1980-2001



Source: OECD, World Bank

□ After 1986, the French Economy experienced a wide process of privatisation...

□ ... but opposite to UK, this process was not mainly dedicated to "services of general interest".

□ It's only in the mid-90ies that operations of privatisation of public utilities occurred with the case of France Telecom (and Air France if you also consider the "services of general interest").

University of Paris-Dauphine

6



Instead of a continuous process of "breath" ...

	1993	1993/94	1994/95	1995/96	1996/97	1997 /1998 (1)	1998/ 1999	1999 /2000	2000 /2001	2001 /2002
Nombre d'opérations	44	37	39	51	46	49	28	21	24	11
Chiffres d'affaires										
En MF	11 488	14 539	22 932	31 042	11 999	14 469	28 287	9 374	9 258	1 612
En M€	1 751	2 216	3 495	4 732	1 829	2 205	4 312	1 429	1 411	246
Effectifs	10 229	12 440	24 188	29 122	22 294	14 736	31 419	7 076	14 096	1 696

**...the privatisation's dynamic seems to be stopped
today in France**

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

7



Contents

1. Some highlights on the privatisation's trends in France
2. **Telecommunications: France Telecom and the "lender of last resort".**
3. Electricity: a "process" of privatisation under control for EDF
4. Some elements of conclusion

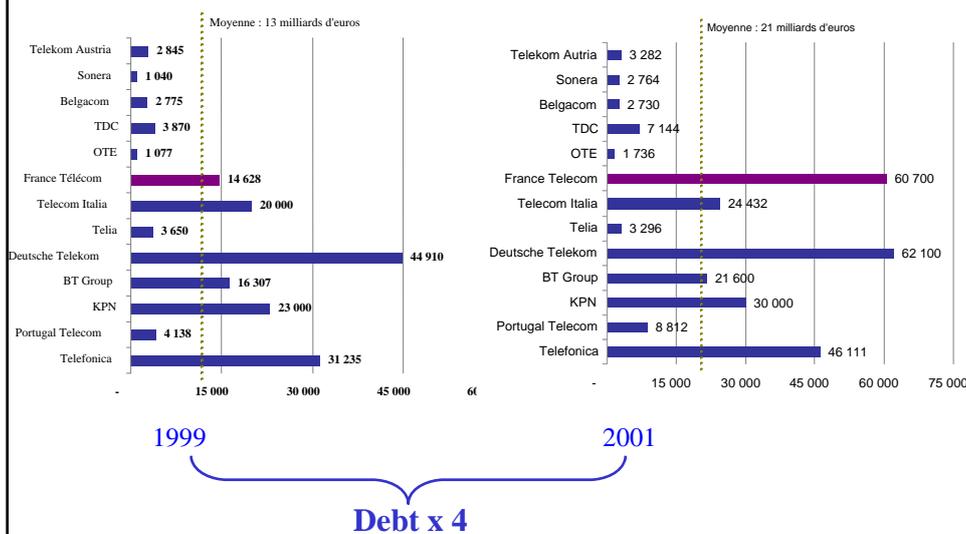
French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

8

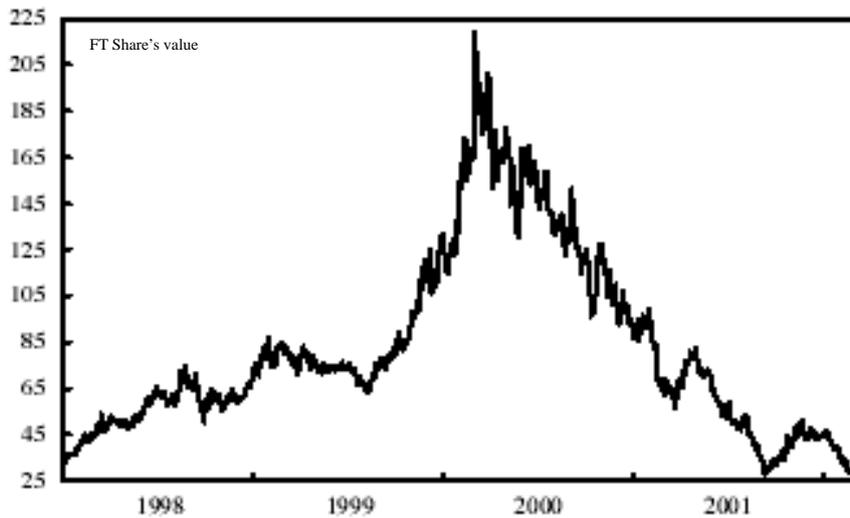
Privatising France Telecom: the end of a taboo

- ✓ 1996: Transformation in “Société Anonyme”
- ✓ 1997-->1998: Partial privatisation; State’s share decreases to 55%
- ✓ 1996-->2001: FT’s revenues +100%
- ✓ An “ambitious” industrial strategy (and maybe a strategy of “National Champion” for the French State):
 - ❖ An aim of pan-european development...
 - ❖ ... combined with a multi-services “spectrum” (fixed, mobile, Internet)(--> close to EDF’s strategy).
- ✓ This strategy is very expensive: ex: the cost of the licence for UMTS in UK is € 8 billions
- ✓ This strategy is driven with an “implicit guarantee” of the French State.

The cost of a pan-european strategy



The French State in front of the bubble



French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

11

A huge impact of the public portfolio's value

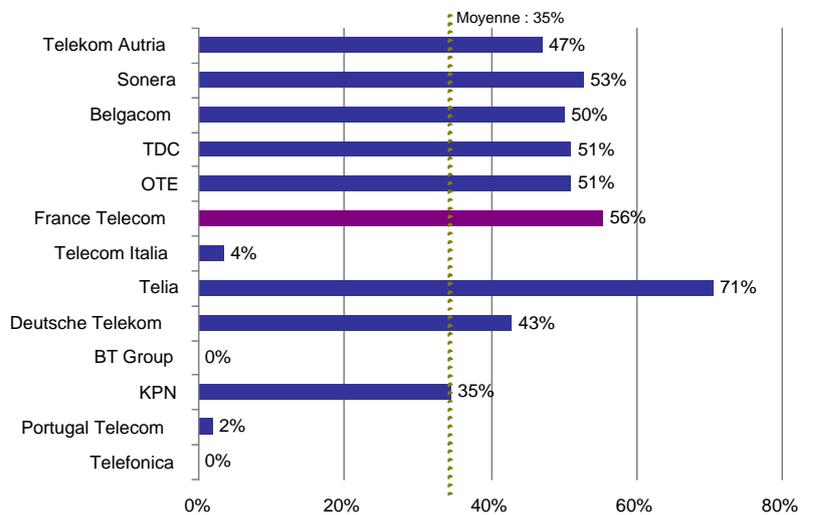
	30 septembre 2001			30 septembre 2002		
	Cours du jour en euros	Part de l'État dans l'entreprise	Valorisation de la participation de l'État (MEuros)	Cours du jour en euros	Part de l'État dans l'entreprise	Valorisation de la participation de l'État (MEuros)
France Télécom	35	56%	22 180	7	56%	4 662
Air France	12	56%	1 475	7	54%	873
ASF	-	-	-	27	50%	3 142
EADS	12	17%	1 593	11	15%	1 319
Crédit Lyonnais (1)	35	12%	1 379	33	11%	1 260
TMM	22	38%	2 163	16	21%	936
Thalès (ex TCSF)	40	33%	2 191	27	33%	1 481
Renault	32	44%	3 393	44	26%	3 218
Dassault-Systèmes	33	16%	596	16	16%	278
Bull	0,8	16%	22	0,4	16%	11
CNP	34	1%	58	34	1%	54
Péchiney	42	0,1%	2	27	0,1%	1
Usinor	9	0,1%	1	10	0,0%	1
Total			35 053			17 236

-50%

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

12

The French State is still today the main shareholder...



Source : T ERA Co nsultants d'après données opérateurs

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

13

... and wants to act as a "lender of last resort"

- ✓ In December 2002, the new CEO of FT (Thierry Breton) announced a "surgery plan" to avoid the failure of the firm.
- ✓ The French State decided to act quickly with a lend of €9 billions and a capital increase of € 15 billions (which it will itself provide € 9 billions and the private sector € 6billions).
- ✓ But Brussels decided since to open a "State Aid's procedure" as to consider the impact on the competition in the telecom sector.

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

14



Contents

1. Some highlights on the privatisation's trends in France
2. Telecommunications: France Telecom and the "lender of last resort".
3. Electricity: a "process" of privatisation under control for EDF
4. Some elements of conclusion



European Electric Industry Restructuring : The French position

- ✓ Since the beginning of the 90ies, the EU's liberalisation program called for open competition in the generation and distribution of electricity and fair access to high voltage transmission lines throughout the EU.

Electricity			
Market fully open already	Full opening planned	No date for full opening	Regulator in place
AT, FI, DE, SE, UK	BE, DK, IR, NL, PT, ES	FR, GK, IT, LX	All except DE

European Electric Industry Restructuring : The French position

	Declared market opening (%)	Full opening date	Unbundling: transmission system operator/owner	Unbundling: distribution system operator	Regulator	Overall network tariffs	Balancing conditions favourable to entry	Biggest three generators' share of capacity (%)
Austria	100	2001	Legal	Accounting	ex-ante	above average	moderate	45
Belgium	52	2003/7	Legal	Legal	ex-ante	average	unfavourable	96 (2)
Denmark	35	2003	Legal	Legal	ex-post	average	favourable	78
Finland	100	1997	Ownership	Management	ex-post	average	favourable	45
France	30	-	Management	Accounting	ex-ante	average	moderate	92
Germany	100	1999	Legal	Accounting	NTPS ¹	above average	moderate	64
Greece	34	-	Legal/Mgmt	Accounting	ex-ante	average	moderate	97 (1)
Ireland	40	2005	Legal/Mgmt	Management	ex-ante	average	moderate	97 (1)
Italy	45	nhh ² in 2004	Own-legal	Legal	ex-ante	average	moderate	69
Lux	57	-	Management	Accounts	ex-ante	above average	unfavourable	n.a.
Neth	63	2003	Ownership	Management	ex-ante	average	moderate	59
Portugal	45	2003	Legal	Accounting	ex-ante	average	moderate	82
Spain	55	2003	Ownership	Legal	ex-ante	average	favourable	83
Sweden	100	1998	Ownership	Legal	ex-post	average	favourable	90
UK	100	1998	Ownership	Legal	ex-ante	average	favourable	36

=> EDF is facing a strong "demand of reciprocity".

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

17

EDF Group: a multi market strategy

- ✓ The EDF Group covers all the energy activities in more than 20 countries : energy management (generation, trading, and optimisation), transmission, distribution, supply, energy services and development.

(millions d'euros)	31/12/01	31/12/02
Chiffres d'Affaires	40716	48359
Resultat Net	1327	481



- ✓ EDF is following a multi market strategy in the EU by purchasing assets in UK (London Electricity and 24 seven), Italy (Montedison), Germany (EnBW) and Spain (HidroCantabrico).

French-Czech workshop in Applied Economics / 28-29 april 2003 University of Paris-Dauphine

18



Which « future » process of privatisation?

- ✓ In 2002, French Prime Minister said that the ownership of the two government energy operations EDF and GDF would be gradually opened within the National Assembly's 5 year term .
- ✓ The French government would keep 51% stake at least in the near term.
- ✓ One proposal circulated by a think tank would put only 12% of EDF in private hands including 2% for EDF's current European utility partners in Germany and Italy. The rest would be held by employees, GDF and 3 external funds.



Some obstacles, but a political determination

- ✓ Two Main Obstacles :
 - Existence of EDF – GDF services
 - EDF's pension liabilities and its accounts.
- ✓ Despite these difficulties, the government sees privatisation of state assets as effective ways to raise money to support the country's pension fund and general budget



Future EDF could be a new type of firm

- ✓ A partial privatization of EDF would grant EDF access to capital markets where it could more easily raise cash for its international expansion
- ✓ Transformation of EDF's legal status would lead to adoption of international financial standards
- ✓ Mario Monti, has "*made it clear that it would be difficult for EDF to win approval for new acquisitions elsewhere in the EU if it carried on with this stance [of not liberalizing the French energy market]*"



A process under the close control of Brussels

- ✓ If privatization and liberalization continue at the current pace, EDF will not be able to claim for much longer that it is isolated European stronghold of public monopolies and state enterprises
- ✓ The European Com called France to cut state aid to EDF slammed by rivals as an unfair advantage in foreign markets.





Contents

1. **Some highlights on the privatisation's trends in France**
2. **Telecommunications: France Telecom and the "lender of last resort".**
3. **Electricity: a "process" of privatisation under control for EDF**
4. **Some elements of conclusion**



Some key points to keep in mind (1/2)

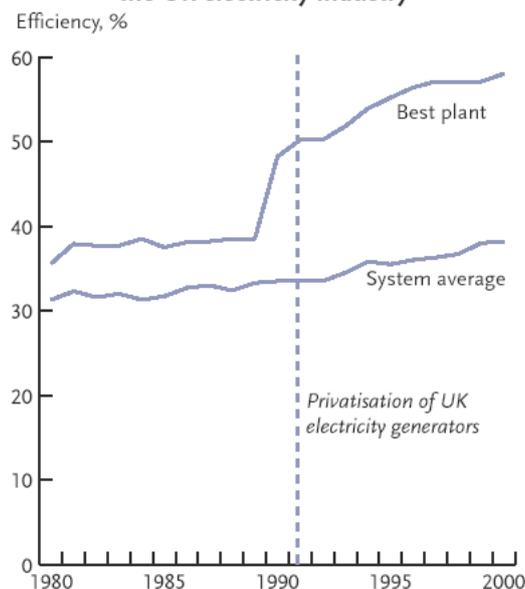
- ✓ Despite an important activity of privatisation in France during the last 15 years...
- ✓ ... the process is, in a way, still in the infancy in sectors of public utilities (except in traditionally "private" sectors like water).
- ✓ Main issues (and fears) are related to the quality (and security) of public services after privatisation and to the "labor contract" of public servants.
- ✓ But the dynamic of deregulation within Europe (postal services, electricity,...) will necessarily lead to future privatisations (as budgetary considerations...)
- ✓ In this context, the french strategy of partial and progressive privatisation induces obvious difficulties--> risks of an anti-competitive "practices".

Some key points to keep in mind (2/2)

- ✓ The “case” of France Telecom will impact the future process of privatisation
 - ❖ Effects on intra-european competition of State aids
 - ❖ Dangers for public servants

- ✓ EDF might (should?) be the next case
 - ❖ Because of the “demand of reciprocity” within U.E
 - ❖ But in a circumstance of a crisis “à la France Telecom”, the French State wouldn’t be able to act as a Lender of Last Resort”

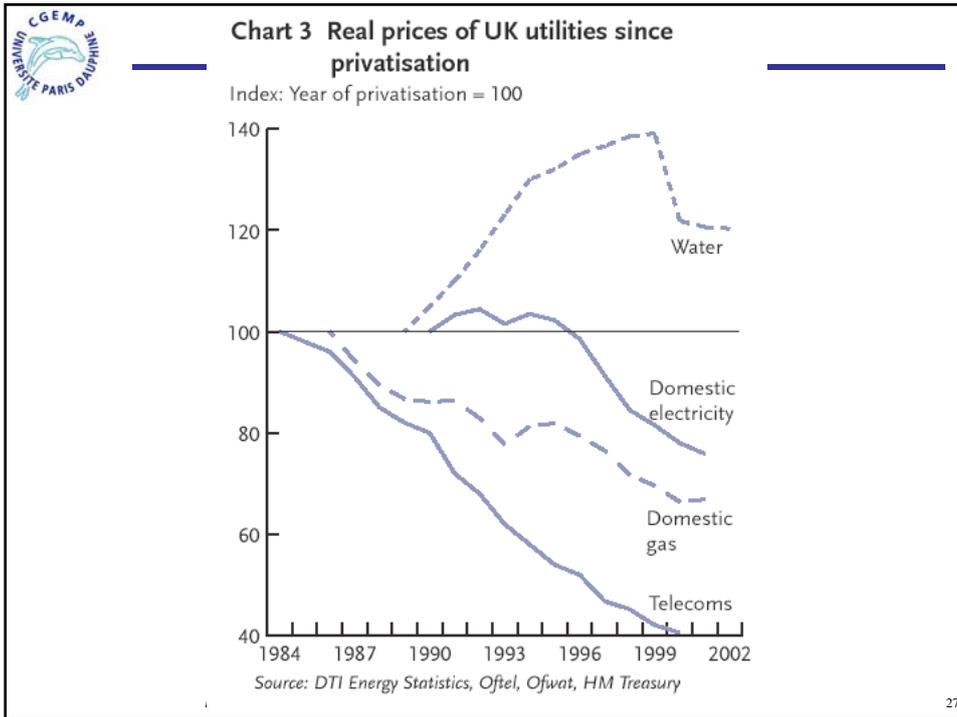
Chart 4 Plant and system efficiency in the UK electricity industry



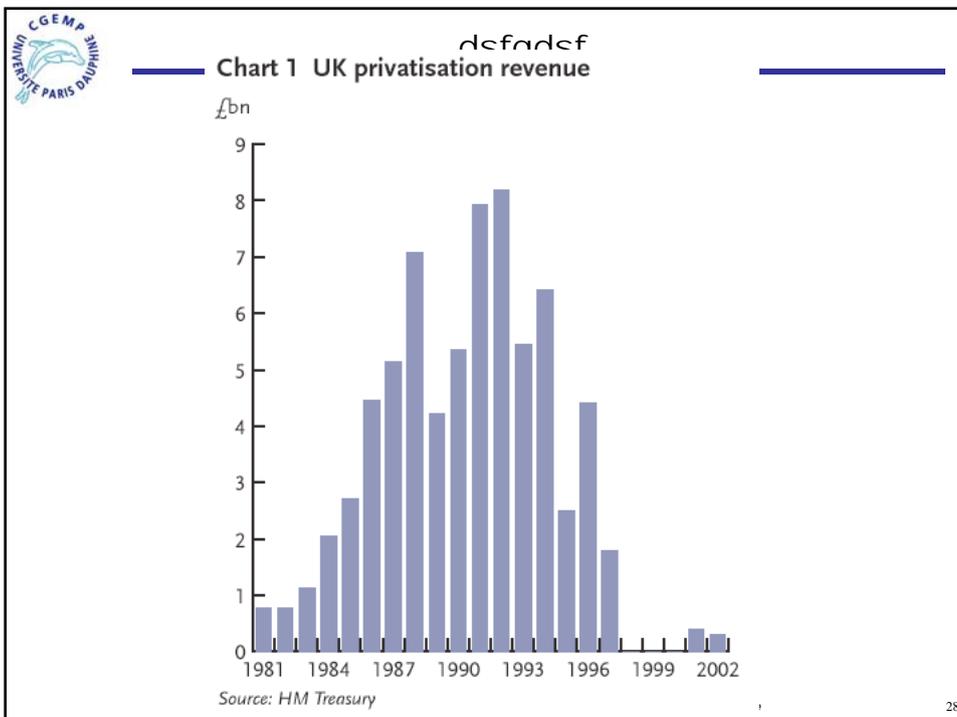
¹ Includes National Health Service Trusts from 1991

² Employment is based on nationalised industries

Source: HM Treasury

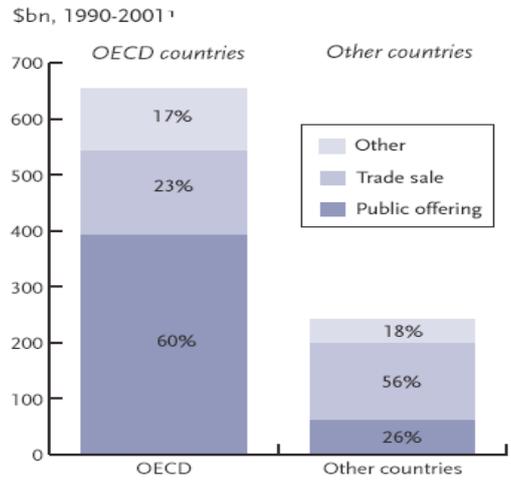


27



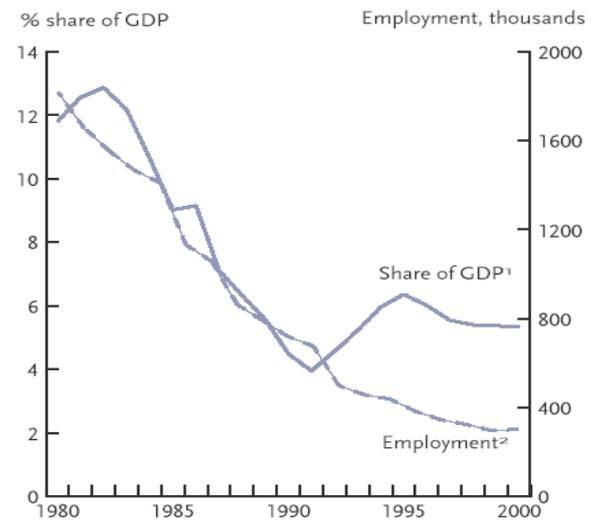
28

Privatisation by method of sale



¹ Other countries 1990-99
Source: OECD, World Bank

Public corporations' contribution to UK economy



¹ Includes National Health Service Trusts from 1991
² Employment is based on nationalised industries
Source: HM Treasury